

Message Text

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ACTION EA-09

INFO OCT-01 ARA-06 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 AGR-05 AGRE-00

INT-05 FAA-00 DOTE-00 /099 W
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R 290805Z SEP 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2557

INFO AMEMBASSY BRASILIA

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E.O. 11652: N/A

TAGS: BR, EAID, ETRD, EFIN, JA

SUBJECT: GOJ VIEW OF BRAZIL PRESIDENT'S VISIT

REFS: (A) BRASILIA 7888; (B) BRASILIA 7997; (C) BRASILIA 8280

SUMMARY: BUSY SEPTEMBER 15-20 VISIT TO JAPAN OF BRAZILIAN PRESIDENT GEISEL PRODUCED OR CONFIRMED AS EXPECTED AGREEMENTS ON NEW STEEL, ALUMINUM, PORT, AND WOOD PRODUCTS PROJECTS AS WELL AS PROSPECTIVE AGREEMENT ON JOINT AGRICULTURAL PROJECT, DESPITE SOME SUDDEN LAST-MINUTE UNCERTAINTIES. FONOFF OFFICIAL ACKNOWLEDGED SOME UNUSUAL CONCESSIONS MADE TO STIMULATE BRAZILIAN GOOD WILL, BUT HE CLAIMED JAPAN RECEIVED SOME SPECIAL TREATMENT IN RETURN, AND HE EXPRESSED CONFIDENCE BRAZIL ACCEPTS OBLIGATION TO EASE ECONOMIC RESTRICTIONS ONCE CIRCUMSTANCES PERMIT. SIZE OF AGREEMENTS ALONE INDICATES IMPORTANCE OF RELATIONSHIP BETWEEN BRAZIL AND JAPAN. END SUMMARY.

1. SEPTEMBER 15-20 VISIT OF BRAZILIAN PRESIDENT GEISEL

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TO JAPAN EARNED PRESS NICKNAME "BRAZILIAN TYPHOON" BECAUSE

OF INTENSITY, PACE, AND VARIETY OF GOB-GOJ NEGOTIATIONS NOT ONLY DURING EARLY PART OF VISIT, BUT ALSO DURING PRECEDING WEEKS WHEN GOB REPRESENTATIVES WERE IN JAPAN FOR PRELIMINARY TALKS. JAPANESE FINANCIAL ASSISTANCE TO BRAZIL OVER NEXT THREE YEARS NOW SCHEDULED TOTAL ABOUT DOLS 2,900 MILLION, INCLUDING DOLS 2,100 MILLION EXPORT CREDITS, DOLS 700 MILLION DIRECT INVESTMENT, AND DOLS 100 MILLION IN GOVERNMENT LOANS AT CONCESSIONAL TERMS. HIGH POINTS JOINT COMMUNIQUE OF SEPTEMBER 18 (BEING POUCHED SEPARATELY) AND GOJ COMMENTS FOLLOW.

2. AGREEMENT REACHED ON CONSTRUCTION OF ALBRAS ALUMINUM PLANT IN BELEM AREA. FONOFF OFFICIAL (KONDO, FIRST CENTRAL AND SOUTH AMERICA DIVISION DIRECTOR) NOTED THAT CONCESSIONAL LOAN FROM GOJ-SPONSORED OVERSEAS ECONOMIC COOPERATION FUND IS TO FINANCE 40 PERCENT OF PROJECT. THIS IS AN EXTRAORDINARILY GENEROUS COMMITMENT FOR A SINGLE PROJECT WHICH REMAINS 51 PERCENT IN BRAZILIAN HANDS. HE NOTED DIFFICULTY OF JAPAN LIGHT METAL INDUSTRY ASSOCIATION (9 PERCENT PARTICIPATION) IN RAISING CAPITAL BECAUSE OF CURRENT "BAD CONDITION" OF INDUSTRY AND ALREADY HEAVY COMMITMENT TO ASAHAN PROJECT IN INDONESIA. ACCORDING TO KONDO, GOJ AGREEMENT TO PARTICIPATE AT ALL IN ALBRAS PROJECT REPRESENTS SPECIAL CONCESSION BECAUSE PROJECT NOT A "GOOD COMMERCIAL VENTURE." LOCAL PROCUREMENT WILL RAISE PLANT COST FIFTY PERCENT OVER WORLD PRICE AND HE GAVE FIGURE OF FORTY PERCENT AS CURRENT BRAZILIAN INFLATION RATE.

3. KONDO SAID PURPOSE JAPANESE PARTICIPATION WAS FUNDAMENTALLY GOOD WILL BUT HE ACKNOWLEDGED AGREEMENT CALLS FOR JAPAN TO GET SIXTY PERCENT OF ALUMINUM PRODUCED. HE ADDED THAT GOB ALSO MADE SPECIAL CONCESSIONS TO GOJ RE THIS PROJECT AND CITED AS EXAMPLE BRAZILIAN PROMISE PROVIDE LOW-COST (ONE-FOURTH JAPANESE PRICE) ELECTRICAL POWER.

4. KONDO FURTHER STATED THAT THREE DAYS BEFORE VISIT BRAZILIANS HAD THREATENED TO CALL IT OFF UNLESS GOJ LIMITED OFFICIAL USE

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CO-GUARANTEED BRAZILIAN SHARE INVESTMENT WHICH FINANCED BY BRAZILIAN BANK. CROSS GUARANTEE BY GOB OF JAPANESE SHARE OF INVESTMENT NOT OFFERED. HE SAID THIS UNEQUAL ARRANGEMENT HAD BEEN MADE IN CERTAIN OTHER JAPANESE-BRAZILIAN JOINT VENTURES BUT GOJ REFUSED THIS CONDITION AND AFTER DAY'S DELAY BRAZILIANS WITHDREW IT.

5. REGARDING TUBURAO STEEL MILL, KONDO SAID KAWASAKI

STEEL PARTICIPATION WAS FINANCED BY STRAIGHT COMMERCIAL
LOAN FROM JAPAN EXPORT-IMPORT BANK ALTHOUGH INFRASTRUCTURE
LOAN FOR PROJECT WILL COME FROM GOJ-SUPPORTED JAPAN
INTERNATIONAL COOPERATION AGENCY.

6. KONDO STRESSED THAT TERMS GOJ CONTRIBUTION TO
PRAIA MOLE PORT, WHICH WILL SERVE NEW STEEL FACILITY,
REPRESENT ANOTHER EXTRAORDINARY GOJ CONCESSION. OECD
CONCESSIONAL LOAN FOR PORT IS "FIRST AND LAST" SUCH
LOAN FOR THIS KIND OF PROJECT, HE SAID. LANGUAGE OF
COMMUNIQUE RE THIS PROJECT SPECIFIES ONLY THAT (THE
GOJ) "IS READY TO OFFER FINANCIAL COOPERATION AND TECH-
NICAL COOPERATION IN ACCORDANCE WITH JAPANESE LAWS AND
ORDINANCES CONCERNED" BUT KONDO INDICATED GOJ HAS
DECIDED TO PARTICIPATE ON ABOVE CONCESSIONAL TERMS.

7. RE WOOD PRODUCTS FACTORY, COMMUNIQUE INDICATED
THAT JAPAN WILL RECEIVE A PART OF PLANT OUTPUT AND
THAT PRODUCTION SHOULD BEGIN AT END OF THIS YEAR.
KONDO NOTED SCHEDULED PRICE OF WOOD HAD TRIPLED SINCE
ORIGINAL AGREEMENT SO AS TO EXCEED EVEN CURRENT
SAO PAULO PRICE BY FIFTY PERCENT. AFTER NEGOTIATION
GOB NOW HAS AGREED TO SUBSIDIZE PRODUCING COMPANY SO
THAT JAPAN CAN OBTAIN WOOD PRODUCTS AT SAO PAULO PRICE.

8. JOINT AGRICULTURAL PROJECT ENVISIONS SOME ULTIMATE
SHIFT OF JAPANESE DEPENDENCE AWAY FROM US EXPORTS,
SOYBEANS IN PARTICULAR, BUT KONDO EMPHASIZED THAT NO
FIRM AGREEMENT WAS REACHED EITHER AS TO QUANTITY TO
BE PURCHASED OR AS TO PRICE. HE SAID THAT BRAZILIANS
DO NOT WANT TO "GET IN WAY OF" BUTZ-ABE AGREEMENT
AND THAT THEY ACCEPT NECESSITY FOR SELLING SOYBEANS

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FM AMEMBASSY TOKYO

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AT MARKET PRICE WITHOUT PRESSING GOJ FOR FIXED-PRICE
ARRANGEMENT.

9. KONDO FURTHER CONFIRMED THAT AGREEMENT TO IMPORT
IRON AND STEEL PELLETS TO JAPAN FROM SOON-TO-BE-
COMPLETED NIBRASCO FACTORY IS ALSO ON RAILS, AS ARE
SCHEDULED IRON ORE EXPORTS TO JAPAN FROM BRAZILIAN
MINES (280,000,000 TONS THROUGH FIFTEEN YEARS
AND UNSPECIFIED AMOUNT THROUGH SIX YEARS FOLLOWING).

10. KONDO NOTED THAT BRAZILIANS DO NOT WISH ESTABLISH
FCN TYPE OF TREATY AS FRAMEWORK THEIR ECONOMIC RELATIONS
WITH JAPAN. HE SAID THEY DESCRIBED THEIR FCN TREATY
WITH US AS "A MISTAKE."

11. ONE PROVISION OF COMMUNIQUE CALLED FOR "ORDERLY
DEVELOPMENT OF AVIATION BUSINESS" BETWEEN BRAZIL AND
JAPAN. KONDO NOT SURPRISINGLY INTERPRETED THIS AS
BRAZILIAN SUPPORT FOR GOJ OBJECTIVE OF GAINING
"BEYOND RIGHTS" TO BRAZIL FROM US ON SOME JAPAN-US JAL FLIGHTS.
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12. NORTH-SOUTH ISSUES PRODUCED LITTLE DISCUSSION
AND NO AGREEMENT. BRAZIL TOOK GENERALLY RESERVED
POSITION AND SPECIFICALLY EXPRESSED HESITATION ACT
AS BRIDGE BETWEEN NORTH AND SOUTH RE ISSUES SUCH AS
PERPETUAL SOVEREIGNTY OVER RESOURCES (WHICH GOJ
UNWILLING CEDE TO COUNTRY OF LOCATION, AT LEAST AS
GENERAL RULE, BUT WHICH BRAZIL CLAIMS FOR ITSELF)
AND LDC DEBT MANAGEMENT. ACCORDING KONDO, BRAZILIANS
ALSO UNWILLING "BREAK" COMMON FUND CALLED FOR AT
NAIROBI BY LDC'S.

13. RE GENERAL CONDITIONS OF JAPANESE INVESTMENT IN
BRAZIL, GOJ EXPRESSED DISSATISFACTION BOTH WITH BRAZIL
INFLATION RATE AND WITH BRAZILIAN IMPORT RESTRICTIONS
AND CURRENCY CONTROLS, LATTER OF WHICH PREVENT REPATRIA-
TION PROFITS. KONDO SAID JAPANESE MADE VERY CLEAR

THAT TRANSFER OF "KNOW-HOW" WILL NOT WORK OUT UNLESS CURRENCY RESTRICTIONS ARE EASED TO PERMIT ADEQUATE COMPENSATION. BRAZILIANS, HE SAID, EXPRESSED UNDERSTANDING JAPANESE POSITION AND HE BELIEVES THEY NOW KNOW THEY MUST LIBERALIZE WHEN BRAZIL'S BALANCE OF PAYMENTS SITUATION EASES, POSSIBLY (HE THOUGHT) BY END OF 1976. BRAZILIANS, ON THEIR SIDE, HAD EXPRESSED CONCERN RE PAYMENTS IMBALANCE.

14. DESPITE GOJ RESERVATIONS INDICATED ABOVE, LARGE SCALE OF AGREEMENTS IN ITSELF SHOWS SPECIAL IMPORTANCE WHICH BOTH THESE TWO RICH COUNTRIES WITH THEIR COMPLEMENTARY ECONOMIES HAVE COME TO ATTACH TO THEIR DEVELOPING RELATIONSHIP. A FURTHER SIGN GOJ INTEREST IS THE UNUSUAL CONCESSIONS GOJ APPEARS TO HAVE MADE. VISIT ALSO UNDERLINED PREEMINENCE OF BRAZIL IN JAPANESE VIEW OF LATIN AMERICA, BUT JAPANESE DO NOT BELIEVE THIS CIRCUMSTANCE CAUSES SIGNIFICANT IRRITATION AMONG OTHER LA NATIONS.
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